

WACC Computation

- In the WACC formula, we know
 - ✓ Debt percent
 - ✓ Equity percent
 - ✓ Cost of new debt
 - ✓ Income tax rate
- The hard part is the cost of equity
- If the capital structure changes, the cost of equity should change
- In theory, if the capital structure changes, the cost of equity should change to maintain the same overall WACC
- Therefore, if the capital structure changes in the model, careful with assumption about how the WACC changes.

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